



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

**Date:** 8/21/2008

**GAIN Report Number:** NZ8019

## New Zealand

## Kiwifruit

## Kiwifruit Industry Annual Report

**2008**

**Approved by:**

Laura G. Scandurra  
U.S. Embassy

**Prepared by:**

David E. Lee-Jones

---

**Report Highlights:**

New Zealand production of kiwifruit during Marketing Year (MY) 2007 (January – December) jumped significantly, up 11.5% to a record 367,916 tons. Production of kiwifruit is expected to break another record in MY 2008 increasing approximately 4% to 382,000 tons. In MY 2007, New Zealand exports of kiwifruit reached a record 347,916 tons, a 12.2% jump from the previous year. Exports in MY 2008 are expected to increase a further 4% reaching 362,700 tons, primarily due to better orchard yields, larger fruit size, and lower loss rates.

---

Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Wellington [NZ1]  
[NZ]

## Production

### MY 2007

New Zealand production of kiwifruit during Marketing Year (MY) 2007 (January – December) jumped significantly, up 11.5% to a record 367,916 tons, with only an estimated 2% increase in area harvested. Favorable weather conditions including a warm spring, regular rainfall, high sunshine hours and a warm, dry autumn contributed to the increased yield. However, fruit size was smaller than the previous year for both organic and conventional green kiwifruit.

Production of kiwifruit is expected to break another record in MY 2008 increasing approximately 4% to 382,000 tons, largely due to an estimated 1% increase in production area combined with favorable weather conditions and more widespread adoption of improved orchard management techniques. Average fruit size is larger than in MY 2007 and the percentage of rejected fruit is lower.

While kiwifruit production has been trending upward - increasing 50% since CY 2000 - orchard profitability reached a nine year low in MY 2007. According to New Zealand Ministry of Agriculture and Forestry (MAF) estimates, orchard profitability (revenue less direct orchard operating costs) was just NZ 76¢ (USD 0.57) per tray down from a high of NZ \$3.80 (USD2.85) in MY2003. Factors accounting for the relatively low profitability include escalating costs, including labor and pack shed charges, and poor orchard-gate prices, which have been low since 2004, due mainly to exchange rate factors. In MY 2007, the average orchard gate price (not including pack house charges) was an estimated \$4.45 (USD 3.34) per tray (3.6 kg) down from NZ \$5.18 (USD3.89) the previous year.

### MY 2008 and Beyond

The picture is expected to improve somewhat during MY 2008. The recent depreciation of the NZ currency, along with favorable conditions during the start of the season in the key EU market, good fruit size and quality, and an early start to the season bode well for higher orchard gate returns in MY 2008. Zespri is forecasting an increase of approximately NZ 65¢ (USD 0.49) for the gross price per tray of Zespri Green paid to growers prior to packing costs being deducted. However, it is likely that, at the orchard level, most of the increase will simply be used to offset increased costs, including labor. Orchard labor costs now account for over 50% of all orchard operating expenditures as the increase in the New Zealand national minimum wage has had a significant effect on harvesting and vine management costs.

In spite of increasing costs, kiwifruit production is expected to expand steadily over the next few years. While some kiwifruit vines have been taken out of production, the removals have largely been on marginal land that has historically delivered relatively low yields or low dry matter content. The areas withdrawn have been more than offset by a steady increase in plantings of the Zespri Gold variety. The plant variety rights for Zespri Gold are owned by Zespri, which controls the area planted to this variety. Currently, acreage planted to Zespri Gold is approximately 2,060 hectares compared to 451 for organic fruit and 9,675 for green fruit. Zespri is reportedly allowing an addition 600 hectares of the Zespri Gold variety to be planted over the next few years. Zespri has accepted tenders submitted by growers at over NZ \$20,000 (USD 15,000) per hectare for the right to grow Zespri Gold, which indicates a certain degree of confidence in the future of this variety.

A total of approximately 1,000 hectares planted to both Zespri Gold and green kiwifruit are expected to come on line over the next five years. This alone is expected to account for an 8% increase in production. Improvements in orchard management techniques will likely contribute to improved yields and a more favorable exchange rate will likely contribute to improved profitability. Having peaked at 82 cents to the U.S. dollar in April 2008, the New Zealand dollar fell to 70 cents in August 2008, which will bolster returns to growers in New Zealand dollar terms. New Zealand Government officials are forecasting that the New Zealand dollar will continue to depreciate over the next two to three years against most major currencies. This should help improve the profitability of kiwifruit production. In light of these factors, post predicts that national production will continue to increase between 2 and 4% per annum over the next few years.

Industry contacts report that there is considerable scope for improving yields, dry matter content, and fruit size while also minimizing post-harvest fruit loss. Zespri pays its growers on the basis of various incentives, including taste (high dry matter) and early harvesting (Kiwi-Start program), which results in considerable variation in the price received by growers. Successfully using the Kiwi-Start program could mean an additional \$2.70 (USD 2.03) per tray for growers compared to the industry average. Taste Payment incentives typically make up 16% to 25% of the total price received by growers depending on the variety of fruit. Zespri also pays premiums for organically grown green fruit and the Zespri Gold variety. In MY 2007, Zespri paid a premium of \$1.85 (USD 1.39) per tray for organic fruit and a premium of \$2.51 (USD.88) for Zespri Gold over and above the \$6.30 (USD 4.73) per tray for the green variety.

In July 2008, Zespri announced it will begin orchard trials of four new varieties. Orchardists will graft the new varieties onto 30 hectares of rootstock vines in August 2008.

## PSD Table

Kiwifruit New Zealand	2006			2007				2008			
	Market Year Begin: Jan 2006			Market Year Begin: Jan 2007				Market Year Begin: Jan 2008			
	Annual Data Displayed			Annual Data Displayed				Annual Data Displayed			
	Off Data	First Est.	New Post Data	Off. Data	First Est.	New Post Data	% change from last year	Off. Data	First Est.	New Post Data	% change from last year
Total Area Planted (hectares)		13000	12985			13250	2.0%			13400	1.1%
Area Harvested (hectares)		13000	12000			12250	2.1%			12400	1.2%
Total Production (Tons)		309000	329384			367133	11.5%			382000	4.0%
Imports (Tons)		1000	742			783	5.5%			700	-10.6%
Total Supply (Tons)		310000	330126			367916	11.4%			382700	4.0%
Exports (Tons)		290000	310126			347916	12.2%			362700	4.2%
Domestic Consumption (Tons)		20000	20000			20000	0.0%			20000	0.0%
Total Distribution (Tons)		310000	330126			367916	11.4%			382700	4.0%
Production Yield (Tons/hectare)			27.4			30.0	9.2%			30.8	2.8%

## Exports and Trade Policy

In MY 2007, New Zealand exports of kiwifruit reached a record 347,916 tons, a 12.2% jump from the previous year. Exports in MY 2008 are expected to increase a further 4% reaching 362,700 tons, primarily due to better orchard yields, larger fruit size, and lower loss rates. On a volume basis, the EU is the largest market followed by Spain and South Korea. On a value basis, Japan is the largest market as New Zealand kiwifruit commands a premium in the quality conscious Japanese market.

Even though grower profits have been low, kiwifruit exports are expected to remain fairly stable in MY 2008. While some in the industry are somewhat pessimistic regarding the outlook for future growth, a more favorable exchange rate combined with ongoing efforts to achieve improved yields translate into an expected 0% to 4% annual increase in exports over the next three to five years.

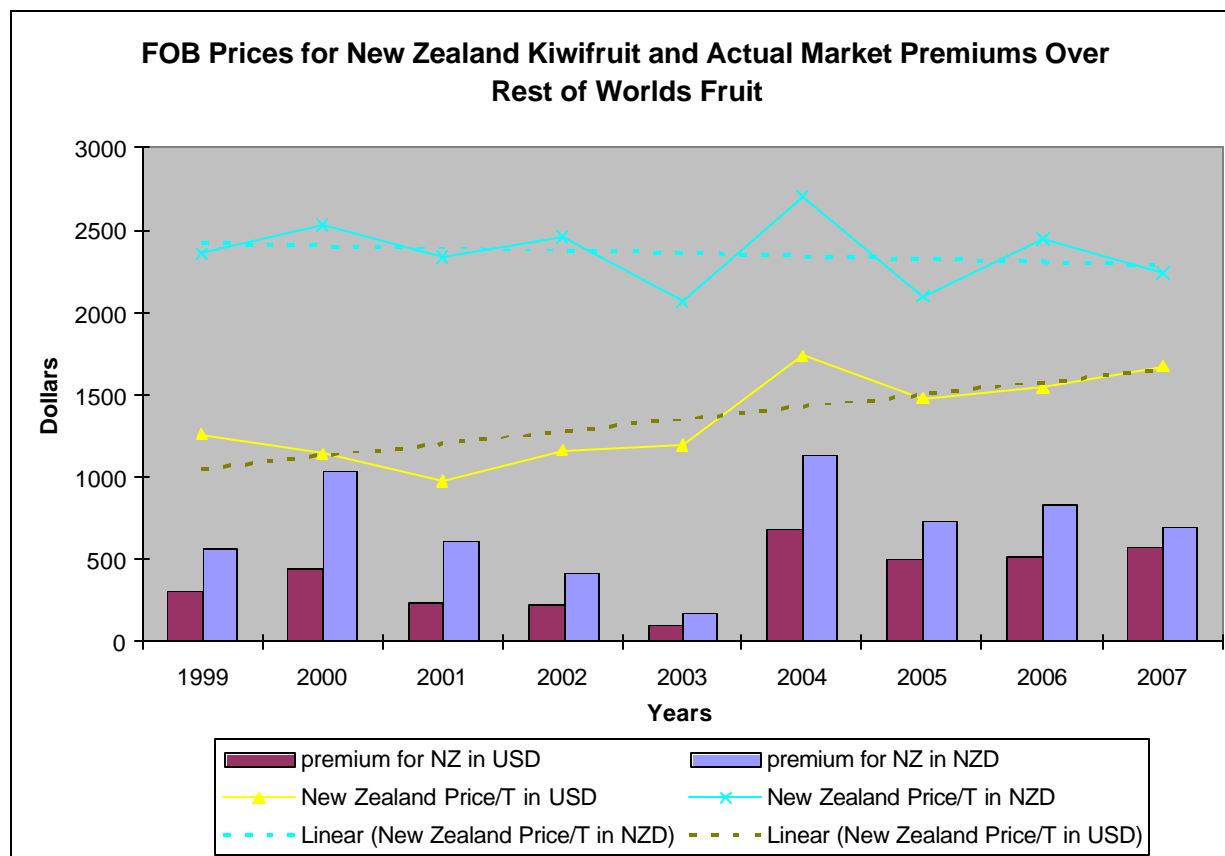
Part of Zespri's ongoing global marketing strategy is to source kiwifruit grown to its specifications from other countries around the world in order to provide year round supply to its customers. Zespri sources kiwifruit from France, Italy, Chile, Japan, Korea and the United States. In the twelve months to March 31 2008, Zespri sourced 5.6 million trays (20,160 tons), 8% less than the 2007 year, from global sources outside New Zealand. This unanticipated decline was principally due to adverse weather reducing production in Italy, France, and Korea where Zespri sources fruit.

New Zealand Kiwifruit Exports				
(Export Destinations Ranked by Market Value)				
Destination Country	CY 2005	CY 2006	CY 2007	CY 2007
	Tons	Tons	Tons	Price USD/Ton
Japan	55,778	54,815	57,937	2,730
EU	110,467	111,425	106,887	1,355
Spain	39,056	35,624	44,805	1,337
South Korea	18,858	20,831	25,855	2,147
Taiwan	15,293	14,088	16,754	1,904
Australia	16,630	14,915	18,977	1,443
Italy	16,659	17,079	18,526	1,316
United States	13,626	12,595	18,789	1,107
Hong Kong	5,070	6,603	9,469	1,766
China	3,992	5,869	7,793	1,511
Rest of the World	17,118	16,283	22,124	1,354
<b>Total Exports</b>	<b>312,545</b>	<b>310,126</b>	<b>347,916</b>	<b>1,671</b>

## Zespri's Marketing Premiums and Grower Profitability

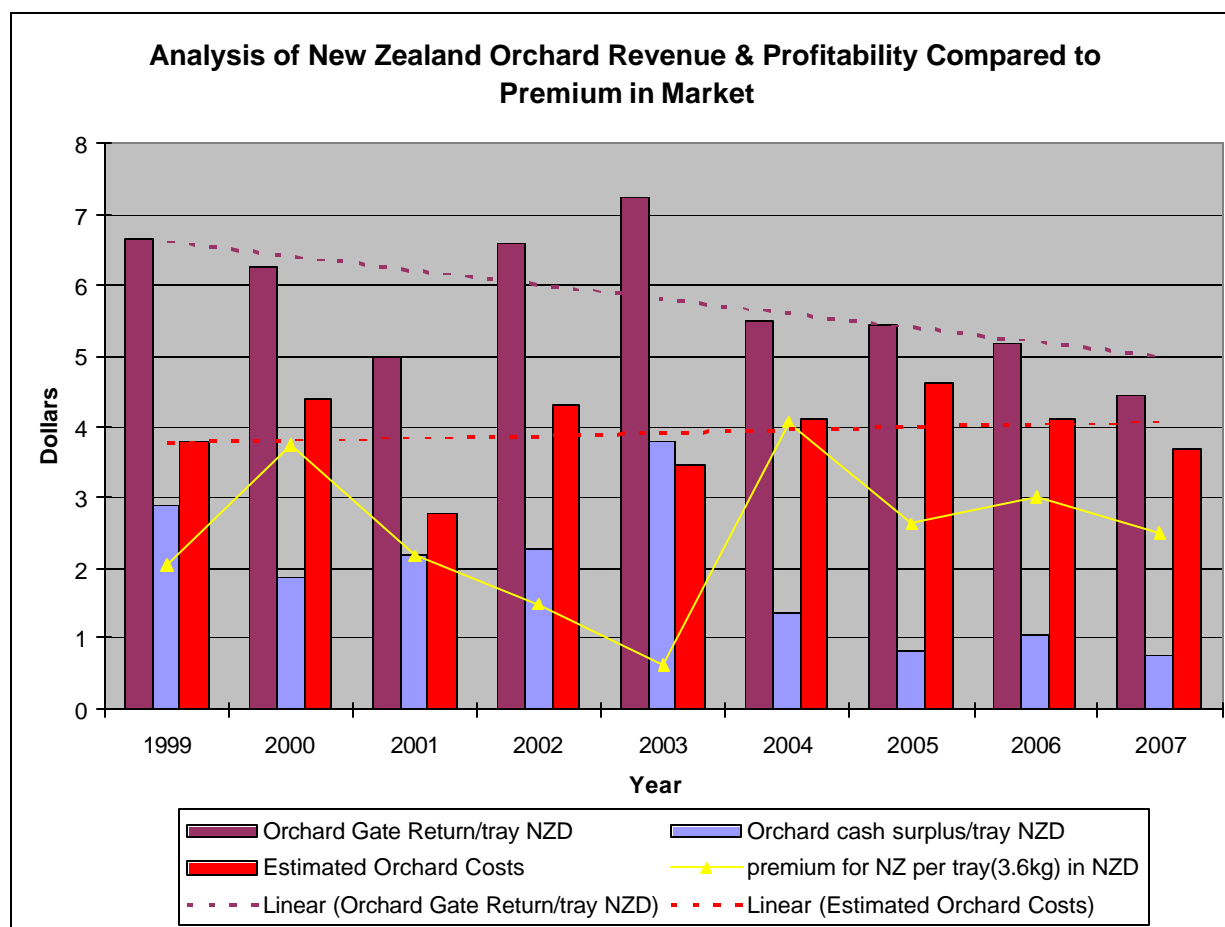
As can be seen from the chart below, Zespri achieves fairly significant price premiums for New Zealand produced fruit ranging from 8% to 39% of the total price when denominated in USD. While the overall average is inflated by the significant premiums achieved in Japan,

Zespri is receiving premiums over the average world price in all of its top ten export destinations except the United States, where prices are at world averages.



Source data: Global Trade Atlas, MAF

The premiums paid by Zespri to growers are an important source of revenue. Without the premiums, average orchard profits would have been reduced to losses in six out of the last nine seasons. However, there is some debate within the industry whether or not the premium for New Zealand product adequately takes into account the extra costs incurred at the orchard level, the pack house level and in the marketplace. However, it is clear that, by having a single desk seller that can control the flow of fruit and the quality, higher prices can be sustained from year to year, particularly in markets like Japan.



Source data: Global Trade Atlas, MAF

As indicated by the graphs above, orchard gate returns per tray of fruit have declined, in New Zealand dollar terms, at a faster rate than the FOB prices received by Zespri. Estimated orchard costs on a per tray basis have been relatively stable with only a slight upward trend. However, increases in post harvest costs have eaten into grower's orchard gate returns. Some packing houses have reported double digit increases in cost over the past three years. The increase in the cost of labor has been the main factor, which is a major component of all post harvest activities. Coupled with fuel and energy, costs have escalated over the last 18 months. However, with the New Zealand economy stalling and unemployment rising slightly, it is likely that labor cost increases will moderate. In addition, the sector as a whole is putting in place strategies to overcome labor shortages.

## NZ Kiwifruit Industry Restructuring Act

By way of background, under the Kiwifruit Industry Restructuring Act 1999, Zespri Group Ltd is the single point for exports from New Zealand of Class 1 (export quality) fruit to all countries except Australia. The Kiwifruit Industry Restructuring Act (1999) and Kiwifruit Export Regulations (1999) restructured the previous Kiwifruit Growers Board into Zespri Group Limited (a commercial company). The regulations did the following:

- a) established a small regulatory body the New Zealand Kiwifruit Board (called Kiwifruit New Zealand);
- b) required Kiwifruit New Zealand to authorize Zespri Group Limited to export, giving Zespri Group Limited a 'privileged export right';
- c) imposed measures on Zespri Group Limited to protect kiwifruit growers from Zespri Group Limited using its privileged export right as an export marketer in a way that is detrimental to growers and to its suppliers of capital;
- d) provided for Kiwifruit New Zealand to monitor and enforce the measures imposed on Zespri Group Limited; and
- e) provided for the Board to approve other exporters to export class 1 kiwifruit in collaboration with Zespri Group Limited (Note: Other exporters accounted for approximately 1% of sales in MY2007.)

Zespri's shareholders are or have been kiwifruit growers in New Zealand. Only growers can buy shares in ZESPRI but shares may be retained if a grower leaves the industry. Growers can sell shares to other growers. Zespri is accountable to both its grower shareholders and to KNZ.

Exporting of Class 2 kiwifruit to Australia is carried out by a group of independent exporters operating under the Horticultural Export Authority framework. Zespri is a member of that group. In MY2007, approximately 16,000 tons of kiwifruit was exported to Australia under this arrangement.

## New Zealand Signs FTA with China

New Zealand's Prime Minister Helen Clark and Chinese Premier Wen Jiabao signed a bilateral free trade agreement (FTA) in Beijing on April 7, 2008, China's first FTA with an OECD country. The FTA is comprehensive covering goods, services and investment, and provides for a fairly rapid phase-out of tariffs for 96% of New Zealand's exports to China.

On full implementation, this will equate to an annual duty savings of NZ \$115.5 million (US \$82.4 million). On entry into force, duties on products that currently face tariffs of 5% or less will be eliminated. By 2012, duties in the range of 6-20% will be phased out and, by 2013, duties greater than 20% will be phased out. Remaining tariffs, including those assessed on "sensitive" agriculture products, will be phased out by January 1, 2019.

The current 20% tariff on New Zealand kiwifruit exports to China will be reduced to 17.8% in 2008. In 2016, the tariff rate will be reduced to zero. New Zealand's kiwifruit exports to China, which have more than tripled since 2004, reached a record 7,793 tons in CY 2007 making China New Zealand's eleventh largest market for kiwifruit.



## Other Issues

### New Zealand Considering Implementing an Emissions Trading Scheme

In its present form, the proposed Emissions Trading Scheme (a carbon cap and trade scheme) could cost the total horticultural sector in excess of NZ \$40 million, especially as it is difficult to see how growers could directly pass on the costs on to consumers. On an area basis, kiwifruit makes up approximately 14% of the sector. A MAF study into the impacts of the scheme can be found at: <http://www.maf.govt.nz/climatechange/reports/Projected-Impacts-of-NZETS.pdf>.

### Labor Shortages

With New Zealand's unemployment rates enjoying historically very low levels over the last few years, it has become increasingly difficult for orchardists and packing house operators to staff the manual and semi-skilled positions needed to manage the vines; harvest the fruit, grade it, and pack it. Reduced profitability and increases in hourly rates for labor have exacerbated the problem. The horticultural sector has worked with the New Zealand Government to develop and introduce the Recognized Seasonal Employer (RSE) program, which is a New Zealand Government policy introduced in April 2007. It seeks to address seasonal labor shortages by facilitating the temporary entry of overseas workers to plant, maintain, harvest and pack crops in the horticulture and viticulture industries. While the scheme has had its teething problems and some on going issues it is generally considered to be successful.

### Post Harvest Capacity

While pack houses and cool stores have invested in additional capacity to keep up with the ongoing crop increases, their capacity is being stretched. However, construction costs for new post harvest facilities have increased substantially in the last two years making a competitive return on investment doubtful.

## Appendix I – Relevant Websites

NZ Government Dept: Ministry of Agriculture and Forestry Information on Kiwifruit  
<http://www.maf.govt.nz/mafnet/rural-nz/statistics-and-forecasts/sonzaf/>

Zespri Group Ltd - Annual Report  
<http://www.zespri.com/images/pdf/annualreport2001/2007%20Annual%20Report.pdf>

NZ China FTA – Kiwifruit Tariff details  
<http://chinafta.govt.nz/2-For-businesses/2-Tools-and-resources/3-Tariff-finder/0-step4.php?t=573>

## Appendix II - Miscellaneous Reports Submitted by the Agricultural Affairs Office in Wellington, New Zealand during CY 2008

Previous GAIN Reports		
NZ8001	Bio-Fuel Developments in New Zealand	Feb 25, 2008
NZ8002	HRI Food Service Sector	March 4, 2008
NZ8003	Impact of Drought on New Zealand Milk Production	March 11, 2008
NZ8006	Livestock and Products March 2008 Update	March 27, 2008
NZ8007	New Zealand Announces FTA with China	April 17, 2008
NZ8009	Dairy Semi-Annual	May 16, 2008
NZ 8010	Deciduous Fruit Semi-Annual	May 16, 2008
NZ 8014	Annual Report on Wine Industry	July 3, 2008
NZ 8017	Biotechnology Annual Report	July 15, 2008